

RAISING THE BAR: HM TREASURY'S CONSULTATION TO REFORM THE UK'S AML/CTF SUPERVISORY REGIME



On 30 June 2023, HM Treasury published a consultation on reform of the anti-money laundering and counter-terrorism financing (AML/CTF) supervisory. The consultation proposes four possible models and seeks respondents' feedback on the potential benefits and drawbacks of each reform. Feedback and responses to the consultation must be submitted by 30 September 2023.

Background

Roadmap of Reform

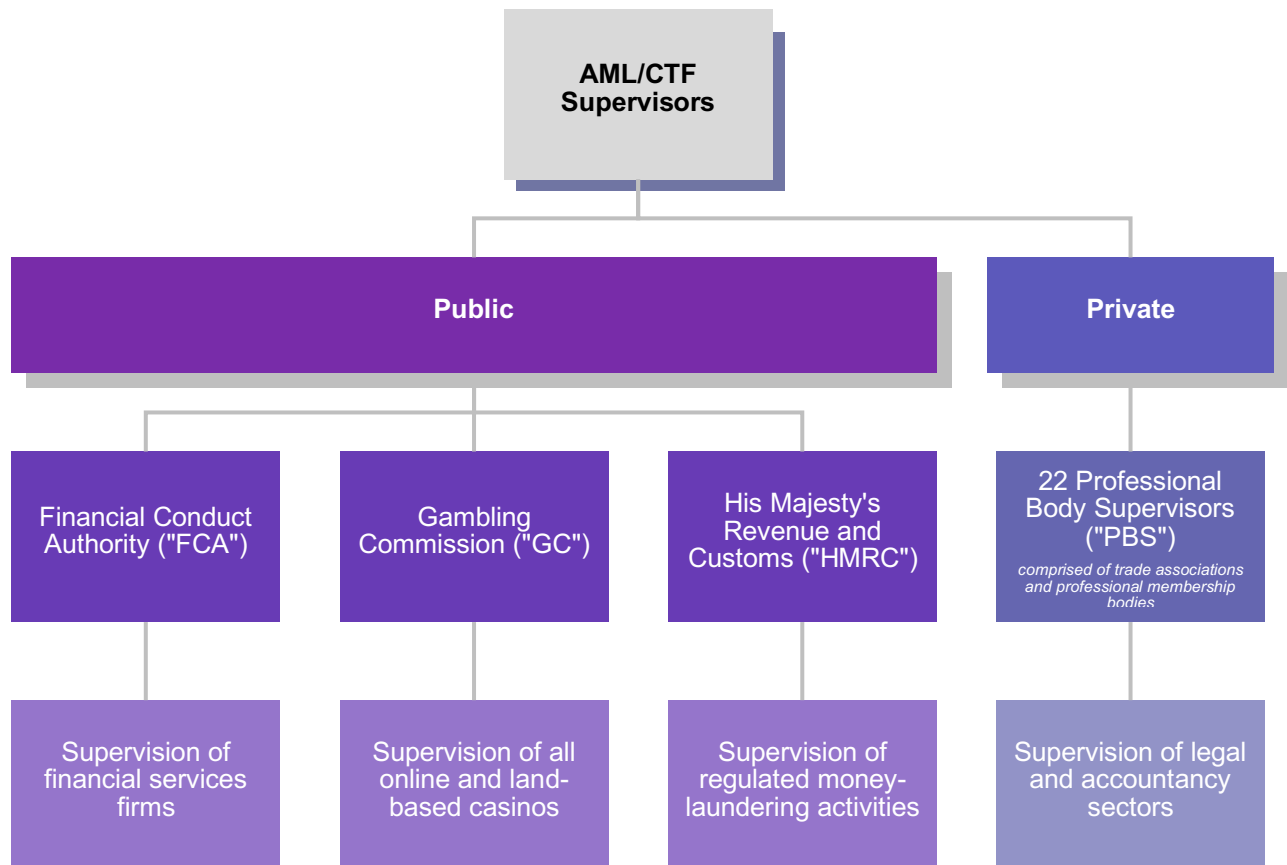
The UK has been on a progressive journey towards a robust AML/CTF framework. The catalyst for this can be traced to UK's first ever [national risk assessment](#) of money laundering and terrorist financing (ML/TF) published in 2015, which culminated in a detailed action plan in 2016, outlining the most significant reforms in over a decade and saw the creation of the Office for Professional Body Anti-Money Laundering Supervision ("OPBAS") in 2017.

In 2018, the Financial Action Task Force (FATF) published a comprehensive [mutual evaluation report](#) on the effectiveness of the UK's AML/CTF regime, which recognised that the UK has one of the toughest regimes but was assessed to be only "moderately effective", identifying particular weaknesses in risk-based supervision. In response, HM Government developed the [first Economic Crime Plan](#) in 2019 to provide a collective articulation of the action being taken by both public and private sectors in response to

economic crime. Since then, the FATF has [acknowledged](#) the UK's progress in taking actions to strengthen its framework but noted that there continues to be scope for further improvement.

HM Treasury also conducted a review in 2022 which concluded that there was a strong rationale for reform of the AML/CTF regime, setting out four overarching models for reform. This consultation sits in line with the [second Economic Crime Plan](#) published earlier this year in March 2023, which sets new ambitions to rationalise and redesign the economic crime system.

Current Supervision Framework



Proposals

Objectives

There are three objectives for supervisory reform against which the four proposed models will be evaluated:

- **Supervisory effectiveness**: risk-based supervision ensuring both consistent and proportionate compliance with the regulations and increased effectiveness of preventative measures
- **Improved coordination**: collaboration and accountability, including information sharing among supervisors, between supervisors and law enforcement and coherence with wider regulatory regimes
- **Feasibility**: suitable funding and governance structures.

Proposed Reform Models

Model 1: OPBAS+	<ul style="list-style-type: none"> • No structural change to the regime: most immediately feasible • OPBAS would be given enhanced powers to increase the effectiveness of supervision by the PBSs • OPBAS could be given a range of new powers coupled with additional accountability mechanisms
Model 2: PBS Consolidation	<ul style="list-style-type: none"> • Consolidation of the current 22 PBSs into either 2 or 6: one supervisor each for the legal and accounting sector with either UK-wide remits or within each jurisdiction • Necessitates a decision on whether accountancy firms currently supervised by the HMRC should be transferred to consolidated PBS • Reduces inconsistency and complexity by retaining only the highest performing supervisors
Model 3: Single Professional Services Supervisor ("SPSS")	<ul style="list-style-type: none"> • A single public body supervising all legal and accountancy sector firms, including some/all sectors currently supervised by HMRC • More appropriate for a public body to hold enforcement powers and remit can be easily expanded with changes to scope of regulations • Existing PBSs could supervise firms for other purposes but impact of dual regulation must be mitigated
Model 4: Single Anti-Money Laundering Supervisor ("SAS")	<ul style="list-style-type: none"> • All AML/CTF supervision in the UK would be undertaken by a single public body, removing supervision by the FCA and GC, except for general regulatory conduct within respective remits • As with the SPSS, the SAS would be operationally independent of any ministerial department and accountable to the Treasury

Sanctions Supervision

The 2018 FATF Mutual Evaluation Report recommended that the UK review and formalise supervisors' powers to monitor sanctions compliance systems and controls. UK sanctions have also since increased significantly in number and complexity following Russia's invasion of Ukraine in February 2022. These include novel sanctions targeting sectors supervised by the PBSs and statutory supervisors, such as accountancy.

Current Money Laundering Regulations ("MLRs") do not cover certain types of sanctions, including trade sanctions. As a result, there is no explicit requirement for firms to implement sufficient systems and controls to safeguard against breaching non-counter terrorism and non-proliferation financing sanctions. AML/CTF supervisors do not all have legislative powers to review all sanctions systems and controls of their supervised entities nor do they have enforcement powers to act where these are deficient.

The consultation serves as evidence-gathering as to whether there is a need for a more formalised system of sanctions supervision and how this could interact with the four reform models.

Conclusion

The UK's fight against financial crime and protecting the integrity of the financial system is far from over. HM Treasury's 2022 review also proposed some specific amendments to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, aimed at supporting

regulated firms to apply a more proportionate, risk-based approach. HM Treasury will begin a consultation on these proposed regulatory amendments by Q4 2023.

In addition to regulatory reforms, enforcement activity has also surged. Recent fines imposed by the [FCA](#) and [HMRC](#) strongly reflect the UK's no-tolerance attitude towards financial crime. This is in line with the aggressive imposition of penalties by global regulators. With regulatory supervision eventually becoming more targeted and effective, and AML/CTF failures continuing to be a particular area of focus for supervisors such as the FCA, skimping on processes is unsound in the face of hefty fines, remediation costs and reputational damage.

HM Treasury aims to decide which model to adopt in early 2024. The implications of a new approach to regulatory supervision of AML/CTF compliance will be significant. If you would like to share your views before the consultation closes on 30 September 2023 or for any questions and support on how any of these proposed changes may affect your financial crime compliance function, please get in touch.

[Avantage Reply](#), part of the [Reply](#) Group, specializes in Financial Services consulting, specifically Regulatory Advisory, Risk Transformation and Financial Crime Prevention. We support clients in implementing and complying with evolving regulatory landscapes and bring extensive experience from collaborating with top-level executives in globally leading financial institutions.

Resources

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Vishwas has international financial services consulting and risk management experience across Europe, US, Middle East and SE Asia, leading a multitude of risk transformation and change programmes.

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Jakub is a certified AML specialist with more than five years of experience in Financial Services. He has a track record of managing complex programmes for clients, managing large teams and developing technical solutions.

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Kavisha is a lawyer with proven experience in financial crime, particularly in regulatory advisory; remediations of internal AML systems and controls; transaction monitoring investigations; drafting of policies and procedures; and due diligence optimisation.

She joined Advantage Reply after graduating from the London School of Economics with a Masters in Law (Banking Law and Financial Regulation). She has over 3 years of financial services experience, including as a Singapore-qualified lawyer and legal counsel in a licensed asset and wealth management firm. At Advantage, her feedback from clients and internal colleagues on various programmes has been exceptional.

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